

# 2007 Emerging Issues Forum

CHARLIE CAHILL

Senior Vice President  
Aon Consulting

TOM VICENTE

Vice President  
Aon Consulting

Panel Two: Revisiting GASB 45

*Funding Strategies from a National Perspective*



## ***Emerging Issues Forum***

### ***GASB 45***

#### **National Perspective**

June 26, 2007

## ***GASB 45 Overview***

- Implementation Schedule

<i>GASB Standard Applies for Fiscal Years Starting After:</i>	<i>If Revenue Is:</i>
December 15, 2006	Over \$100 million
December 15, 2007	Between \$10 million and \$100 million
December 15, 2008	Under \$10 million

- Size of Results

- Accrued Liability: \$30k to \$120k per participant
- ARC: 10% - 15% of covered payroll
- Less if just subsidy

- Factors

- Cost sharing level
- Demographic make-up (age, safety personnel, school personnel)
- Eligibility design
- Section 18
- Funding
- Plans (HMO, PPO, etc.)

## The Hysteria

- “You Dropped a Bomb on Me, GASB – Uncovering a \$1.5 Trillion in Hidden OPEB Liabilities for State and Local Governments” – Credit Suisse
- “Old Promises – Emerging Bills” – Fitch
- “Current Fiscal Policy is Unsustainable – health expenditures will be 18.3% of GDP in 2013”
  - David Walker – Comptroller General of the US
- “46% of health care financed with public funds”
  - US HHS report in 2003

Thanks, Eric Berman

3

## Broad Trends “Survey Says”

- Aon Nationwide Survey
  - January 2007
- Participant Demographic
  - 15% > 10,000 employees; 41% < 500 employees
- Survey objectives
  - What are employers doing to implement a process to prepare for and conduct a valuation?
  - Do employers fully understand the definition of funding as it relates to the GASB requirements, and do they know what funding options are available?
  - How will employers change their plan design to accommodate the rulings?
- Plans Offered
  - Medical 84%
  - Prescription 57%
  - Dental 49%
  - Vision 33%
  - Life Insurance 29%
  - Other 9%

4

## ***Broad Trends “Survey Says”***

- Completed initial GASB 45 study?
  - Nationally: 48%
  - Massachusetts: approximately 30%
- What is the next step your organization will take in managing your OPEB liabilities?

Begin discussions with management to consider range of alternatives	67.4%
Consider adopting alternatives for funding the benefits	51.1%
Consider changing the plan's benefit design	43.5%
Consider Medicare Part D subsidy alternatives	20.7%
Nothing considered at this point	10.8%

5

## ***Broad Trends “Survey Says”***

- Top Four benefit revisions being considered, or have adopted, to reduce your OPEB costs

Change in plan to defined contribution plan	31.3%
Eliminate coverage for future hires	37.5%
Increase retiree cost sharing: pre-age 65	40.0%
Revise eligibility for benefits (age and/or service requirements)	50.0%

6

## Implications and Options

- Are results a cause for concern?
- Metrics to put it in perspective
  - Is cash flow manageable?
  - ARC as a percent of operating income
  - Liability as a percent of asset base
- Can changing approach help?
  - Aggressive, focused disease management
  - Long term funding strategy
  - Design modifications

7

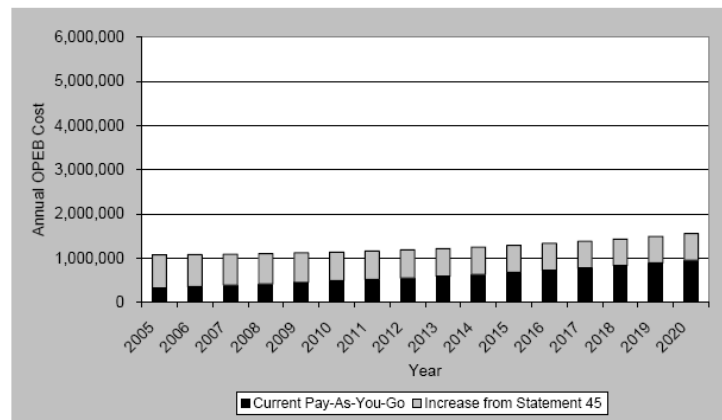
## Where are States in Implementing OPEB?

- 23 have done either actuarial valuations or preliminary valuation (including Massachusetts,) remainder are in process
- 12 have either submitted trust legislation or have already enacted trusts
- 8 anticipate funding part or all of ARC in FY08

Thanks, Eric Berman

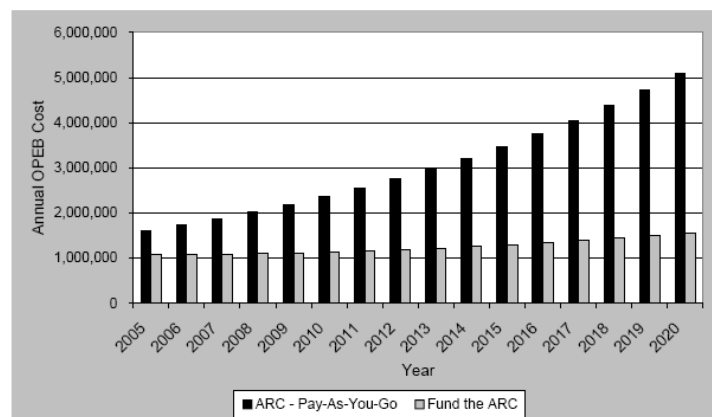
8

## Impact of Statement 45 If Sponsor Funds the Annual Required Contribution



9

## Comparison of Statement 45 Expense



10

## The Size of the Problem

	With Funding	Without Funding
Massachusetts	7,600	13,300
Tennessee	1,614	2,305
North Carolina	15,500	23,800
Hawaii	6,300	9,700

11

## Funding Mechanisms Being Considered by States

- % of Tobacco Settlement Payments (Massachusetts)
- Appropriations (Many states)
- % of payroll (Delaware, Florida, Georgia, Nevada, South Carolina)
- % of Lottery Net Revenue (North Carolina)
- Other Funds and Predecessor Trusts

Thanks, Eric Berman

12



## Can You Ignore GASB 45?

- Texas
  - Approximately \$50 billion
  - No unions
  - Benefits are a legislative right
  - Can be theoretically cancelled outright
  - Also has law for blind hunters
- Connecticut
  - Has balanced budget law
  - \$1 billion deficit
  - Give comptroller right to determine GAAP
  - Just for budget purposes, not financial statements
  - Adopt accounting standards gradually

# Notes



